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ABSTRACT

Finding and coordinating funding to support comprehensive services and service delivery mechanisms for young children and their families is a continuing challenge for local policy makers and community leaders. In the wake of federal welfare reform, policymakers and program developers are increasingly interested in developing new investments for young children and their families at the state and local level. This brief is one of a set of reports sharing the experiences of Starting Points sites and other states and localities in moving the nation toward a healthy, nurturing beginning for all of its children. The brief focuses on creating dedicated local revenue sources for early care and education. The brief begins with a list of general principles for choosing financing strategies to create dedicated revenue sources for early care and education initiatives. Six strategies to create revenue sources are highlighted for policymakers to implement at the state, city, or county levels: (1) special taxing districts; (2) special tax levies; (3) guaranteed expenditure minimums; (4) children's trust funds; (5) fees and narrowly based taxes; and (6) income tax check-offs. The brief describes critical features for each strategy, highlights examples of each strategy in practice, and discusses considerations for the use of each strategy. The brief concludes by noting that the choice of financing strategies will depend on the goals and purposes of an initiative, existing and projected economic conditions, the local demographic context, and the political context, including the attitudes of policymakers and voters toward taxes and fees. (KB)

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Creating Dedicated Local Revenue Sources for Early Care and Education

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Starting Points 1

Meeting the Needs of Our Youngest Children

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Creating Dedicated Local Revenue Sources for Early Care and Education

BY BARBARA HANSON LANGFORD, THE FINANCE PROJECT

Introduction

In 1993, the National Educational Goals Panel reported that nearly half of the nation's infants and toddlers start life at a disadvantage and do not have the supports necessary to grow and thrive. For example, nearly a quarter of all pregnant women receive little or no prenatal care. Many of the more than five million young children whose parents work are in child care programs of substandard quality. Moreover, one quarter of children under the age of three live in families with incomes below the federal poverty level. These disturbing statistics, combined with new research on the critical importance of early experiences in brain development, have created a renewed urgency for improved access to supports and services for young children and their families. Finding and coordinating funding to support comprehensive services and/or service delivery mechanisms for young children and their families is a continuing challenge for local policy makers and community leaders.

Federal funding sources have historically provided the foundation for programs that serve young children. Federal funding sources include entitlement programs, such as Medicaid (Title XIX) and Title IV-E (foster care), and formula and block grants, including TANF, the Child Care Development Fund and the Maternal and Child Health block grant. Federal grant programs, such as Head Start and Safe Start, and federal and state child care tax credit programs are also important sources of funding for programs for young children and their families. States also provide financial support for these programs, most notably through matching funds spent as a condition of drawing down certain federal funds. Aside from matching funds, however, sources and appropriation levels of state funds for young children and their families vary dramatically. In the wake of welfare reform, policy makers and program developers are increasingly interested in developing new investments for young children and their families at the state and local level.

In 1994, the publication of *Starting Points: Meeting the Needs of Our Youngest Children* by Carnegie Corporation of New York heralded a "quiet crisis" for our nation's youngest children. Today, the crisis is no longer quite so quiet. The 11 states and cities that are part of the Starting Points State and Community Partnerships are part of a growing chorus focused on improving the lives of young children and their families. This brief is one of a set of products sharing the experiences of Starting Points sites, as well as other states and localities, to help the nation move towards a healthy, nurturing beginning for all of its children.

One way to generate local funding for early care and education programs and services is to create dedicated revenue sources. Dedicated revenue sources raise and/or direct public funds for specific purposes. This financing strategy offers policy makers and program developers several advantages. Dedicated revenue sources tend to yield stable and predictable funding over time. They also afford a certain level of protection during annual appropriation battles because dedicated revenue sources tend to be difficult to cut or eliminate. For example, some dedicated revenue mechanisms can only be repealed through a referendum. Finally, like other public revenue, funds generated by dedicated revenue mechanisms can be used as a match for other public and private sector funding, for example, to claim reimbursement for administrative expenses (e.g., case management) under the federal Title IV-E program.

Dedicated revenues sources also have drawbacks, however. Once a dedicated revenue source is created to provide funding for specific purposes, decision makers may feel that they have already addressed those programs' funding requirements. If the level of additional funds allocated to those programs declines as a result, the amount of revenue dedicated for a specific purpose may become a ceiling, rather than a floor. Additionally, if a dedicated revenue source is not structured to take account of changing dynamics over time, such as increasing demand for services or changing economic conditions, it may not generate adequate funding in the long run. Finally, just as dedicated revenue sources are difficult to eliminate, they also tend to be difficult to put in place.

This brief first suggests general principles to guide the selection of strategies to create dedicated revenue sources for early care and education initiatives. It then highlights six strategies to create dedicated revenue sources for early care and education programs and services that policy makers can implement at the state, city, and/or county levels.

Principles for Choosing Financing Strategies to Create Dedicated Revenue Sources

Choosing among financing strategies to create dedicated revenue sources to support programs and services for young children and their families is a complex decision. The following principles may provide a useful framework to guide the selection process.[1]

Financing strategies to create dedicated revenue should:

- Be driven by a compelling and well-conceived policy and program agenda.
- Reflect the goals of the supports and services for which they generate funding. For example, mechanisms to create categorical funding streams may not make sense for initiatives seeking to build comprehensive service systems.
- Provide for adequate and flexible growth so that funding levels keep pace with needs over time.
- Distribute the costs of revenue generation fairly so that tax burdens do not fall on those least able to bear them.

The choice of financing strategies will not only depend on the purposes and goals of an initiative, but also on the economic, demographic, and political context of a local community.

Financing Strategies

This section discusses six strategies to create dedicated local revenue sources for early care and education initiatives. It describes the critical features of each strategy and highlights examples of each strategy in practice. It also discusses considerations for the use of each strategy, including the appropriateness of various tax bases, the likely stability and adequacy of revenues generated, the extent to which the strategy can be used to improve coordination of resources, and considerations regarding political feasibility. Theoretically, each strategy can be implemented at the state, municipal, and county levels. However, some strategies, such as income tax check-offs, will be more applicable at the state than the local level.

Advocates of dedicated revenue sources should consider including a maintenance-of-effort clause in the statute and/or regulations that authorize the creation of such mechanisms. A maintenance-of-effort clause specifies that funds generated by a dedicated revenue source can only be spent to supplement existing levels of funding. Policy makers and program developers may want to include such a clause to guard against new revenue being used to supplant existing revenue.

Special Taxing Districts

Local governments commonly create special taxing districts, such as water or school districts, which generate revenue from property taxes. Special taxing districts are independent units of local government, separate from county or municipal government. Generally, the creation of special taxing districts requires state authorization and in some cases, approval by local voters. Although the special taxing district may share geographical boundaries with a local unit of government, the district remains legally and administratively distinct. Revenue generated from the levying of property taxes through a special taxing district is generally dedicated to a single purpose. While special taxing districts are very common, aside from providing funds for public education, policy makers have not

Florida's Children's Services Special Taxing Districts

The first special taxing district to support children's services was created in Pinellas County, Florida in 1946. The Pinellas County district was authorized by a local bill passed by the state legislature and approved by voters in a county referendum. In 1986, the Florida state legislature passed broad legislation to enable any county to create special taxing districts for children's services. According to legislative guidelines, the local board of county commissioners must officially create the district. The boundaries of the district must coincide with the boundaries of the county and it must be governed by a district board. Voters in the county must approve a referendum granting the board taxing authority. The board can then levy property taxes not to exceed 50 cents per $1,000 of assessed valuation. As of 1995, more than two-thirds of Florida counties have such taxing district boards. However, only six of those boards have been granted taxing authority by voters. In fiscal year 1995, those six counties generated almost $63 million in revenue. In general, 30 percent of revenue is used for training for community residents and service providers, community outreach programs, and council administration. The remaining 70 percent of those funds are spent on programs providing direct services for children, including child care. Some of the district boards allocate funds for prevention and early intervention programs. For example, the district board in Palm Beach County allocates 45 percent of funds for services for young children and 17 percent for efforts to strengthen families.

typically created them to fund services for young children and their families.

Considerations:

- Once in place, special taxing districts tend to provide very stable and reliable funding. They are also difficult to eliminate; a local ballot initiative is usually required to repeal authorization for special taxing districts.
- District boards, which oversee special taxing districts, may be able to leverage private resources from local foundations or from the business community.
- A local district board may be more responsive in allocating revenue based on local needs for programs and services than a general governing body.
- Depending on its composition, the district board may provide an effective governance mechanism for improving coordination of programs and services and for allocating public resources more efficiently.
- Special taxing districts produce the most revenue in areas with the highest taxable property values and the least revenue in less wealthy areas. How district boundaries are drawn will affect the district board's ability to raise necessary revenues and direct benefits to those in need.
- The creation of new taxing districts may result in a reduction in appropriations from state legislatures and city or county councils if policy makers feel that early care and education services are already sufficiently funded through these new sources. In the case of Florida, however, there is no evidence of a decline in state expenditures for children's services in the counties that established special taxing districts.
- Depending on local legal requirements, this strategy will likely require significant community mobilization campaigns. In most communities, advocates will need to conduct a state legislative campaign to pass enabling legislation and then a local campaign to grant taxing authority.
- The political feasibility of creating new taxing districts will depend on the attitude of local voters toward property taxes and the existence of caps on property tax rates.

Special Tax Levies

In addition to creating taxing authorities to raise taxes to support early care and education programs and services, local governments can also increase existing taxes through the implementation of special tax levies. Special tax levies are add-ons to an existing

Seattle, Washington: Families and Education Levy

Seattle voters passed the Families and Education Levy in 1990 and renewed the levy in 1997. The levy sets a property tax rate (known as a millage rate) of .23 per $1,000 of assessed valuation. The levy is projected to generate $70 million over seven years. Revenue generated by the levy will fluctuate over time as property values change. For example, revenues increased from $8.5 million in 1990 to $10 million in 1997. Levy funds are administered by various agencies in Seattle city government. A Levy Oversight Committee makes budget and program recommendations and issues reports on the effectiveness of levy-funded programs. Funds generated by the levy support early childhood development, school-based student and family services, comprehensive student health services, and out-of-school time programs.

tax, such as property, personal income, sales or business taxes, and result in an increase in the existing tax rate. New revenue generated from the tax increase is then earmarked for specific programs and/or services, such as early care and education programs.

Considerations:

Depending upon state or local requirements, this strategy may require a referendum or ballot initiative.

- Advocates for special tax levies should be mindful of the fairness of the tax upon which they choose to base the levy. For example, some taxes, such as sales taxes, are more regressive than others, such as income taxes. Instituting a special levy based on a regressive tax could place an increased burden on lower-income families.
- The stability of revenue generated by a tax levy will differ by tax base. For example, while property tax revenue can fluctuate depending on economic conditions and assessment procedures, it is generally fairly stable over time. Attaching a special tax levy to a property tax base may be a particularly good strategy in localities experiencing high real estate growth. Comparatively, taxes with a more volatile base, such as sales and income, can fluctuate widely with changes in economic conditions.
- Flexible funding sources may become less flexible over time. If the tax levy is used to support a broad range of services, an oversight board will likely be needed to determine the allocation of resources among services, populations, and providers. In several cities, officials have found that once the allocation determination is made, it is very difficult to alter the distribution of funds.
- Depending on the local community and political context, special tax levies may not be feasible. For example, several states have instituted tax caps that limit options for the use of a special levy. Other communities may face strong anti-tax sentiments from voters.

Ames, Iowa: Local Option Sales Tax

In 1986, the state of Iowa created a local option sales tax, allowing localities to levy a one percent tax in addition to the five percent state sales tax. Local voters must approve the tax as well as the specific purposes for which funds generated by the levy can be spent. Voters in Ames, a city of approximately 48,000, approved a local option tax referendum in 1987. The local tax option generates over $3.2 million annually. Sixty percent of revenue is earmarked for property tax relief, 20 percent for community betterment, and 20 percent for arts and human services. In fiscal year 1995, $450,000 generated by the levy was allocated for human services, which included child care services. A county team recommends an allocation plan to the city council each budget cycle. The city council approves the distribution of revenue generated by the local option tax. The sales tax will remain in place unless the city council proposes a referendum to repeal it and local voters approve the referendum.

Guaranteed Expenditure Minimums

A guaranteed expenditure minimum sets a floor below which spending for specified services and/or programs cannot fall. An expenditure minimum can be set as a specific dollar amount, for example, a local government could mandate that a minimum of $2 million be spent on early care and education services. More commonly, an expenditure minimum is created by setting aside or earmarking a portion of funds for specific programs and/or services. Policy makers can earmark either a revenue stream, such as sales, income, or property tax revenue, or a budget stream, such as the local education or health budget. While special tax levies and guaranteed expenditure minimums both result in an earmarked funding source for programs and/or services, the mechanism by which funds are generated differs. Unlike special tax levies, which create an add-on to a current tax, guaranteed expenditure minimums provide for the redirection and earmarking of existing revenue.

San Francisco, California: Proposition J

In 1991, voters in San Francisco passed Proposition J, a referendum that amended the city charter and created both a budget floor and an earmarked revenue stream to fund children's services. As of 1995, the budget floor was set at $44.7 million. Funds allocated to children's services cannot fall below that floor unless there is a decrease in aggregate city appropriations. In addition to the budget floor, Proposition J also mandated that 2.5 percent of property tax revenue be set aside for children's services. During fiscal year 1995, the set aside requirement generated $13.8 million. Set-aside funds are placed in a Children's Fund and are allocated equally among four service categories: 1) child care; 2) health and social services; 3) job-readiness; and 4) delinquency prevention, education, libraries and recreation. Funds provide services for young children, age zero to five, as well as school-age children and youth from six to 18 years old. The Children's Fund is administered by the Mayor's Office of Children, Youth, and Their Families. Both the budget floor and the property tax set-aside will remain in effect for ten years; voter reauthorization will be required in 2001.

Considerations:

- A guaranteed expenditure minimum may require voter approval through a referendum or ballot initiative.
- Once a guaranteed expenditure minimum is put in place, advocates will not have to fight many of the annual budget battles to ensure a baseline of funding for early care and education services. However, this baseline may not be flexible enough to respond to changing conditions. Mechanisms for adjusting a guaranteed expenditure minimum over time, such as corrections for inflation or population shifts, will help ensure its long-term usefulness.

Oakland, California: Measure K

Oakland voters overwhelming approved Measure K—the Kids First Children's Initiative—in 1996. Measure K requires the city to set aside 2.5 percent of unrestricted general revenues in a children's fund for programs directly serving children and youth. A 19-member Kids First Planning and Oversight Committee directs the distribution of funds to city agencies and nonprofit organizations. In fiscal year 1998, Measure K generated $5.2 million.

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- Guaranteed expenditure minimums traditionally not only ensure that a specified amount of funding is available, but also specify how funds will be allocated. Particularly if the guaranteed expenditure minimum is used to fund a broad range of services, the process by which funds are allocated is critical. In defining such a process, policy makers need to balance protecting a minimum level of funding for a particular service or population and preserving flexibility in allocating new resources. For example, the first grant process in Oakland was fraught with controversy due to the lack of established guidelines for the distribution of funds. At the same time, however, allocation processes should not be so rigid that they prevent reallocation of resources if needs and priorities change.
- Phase-in periods may be an effective political strategy to increase the chances of passing a guaranteed expenditure minimum. For example, Proposition J was phased in over a two-year period of time. The set-aside amount in the first year was 1.25 percent and was then increased to 2.5 percent for years two through nine.

Children's Trust Funds

A trust fund is a separate, designated account in the public treasury that has special rules for managing the funds allocated to it. Local governments have used trust funds to designate funds for discrete projects, such as commissioning public statuary or refurbishing historical landmarks, as well as for on-going programs, such as transportation and housing services. Many states have created children's trust funds, typically to fund child abuse and prevention programs.

All trust funds are governed by a set of guiding principles that direct fund expenditures and describe fund management goals and processes. In some cases, the state treasurer distributes the trust fund monies. In other cases, an appointed board or commission manages the trust fund. In still other cases, the state legislature makes an annual appropriation through the legislative process. Depending on the management goals, all of the monies in a trust fund may be eligible for expenditure.

Kansas Children's Initiative Fund

During the 1999 legislative session, the Kansas legislature created a special trust fund, the Kansas Endowment for Youth Fund, which will consist of all of the state's funds received from the national tobacco settlement. Investment earnings from the Endowment for Youth Fund will provide ongoing financial support for the Children's Initiative Fund. Monies transferred to the Children's Initiative Fund will be used to provide additional funding for programs, projects, improvements, services, and other purposes directly or indirectly beneficial to the physical and mental health, welfare, safety and overall well-being of children. In appropriating funds from the Children's Initiative Fund, the legislature is directed to emphasize programs and services that are outcome-based and that are designed to prevent or stop children from being involved in or with tobacco, drugs, alcohol, juvenile delinquency or violence.

or expenditures may be limited to the interest that accrues on the account. Currently, trust funds are a popular state repository for tobacco settlement funds. Florida, Kansas, Alabama and New Mexico have already established trust funds to receive and disburse tobacco settlement monies; many other states are currently considering trust funds for this purpose.

Depending on the structure of the trust fund, monies can be contributed from one or a variety of sources. In some cases, public funds from several agencies can be pooled in a trust fund and used to support comprehensive service systems. For example, several children's trust funds provide financial support for child abuse prevention services in conjunction with a broad range of family support services.

Considerations:

- Funds allocated through a trust fund may be easier to control than other budgetary accounts. However, once regulations governing the trust fund are established, they tend to be difficult to change.
- Depending on its structure, trust funds can leverage and accept additional resources from the private sector, including resources from individuals, foundations, and businesses.
- A trust fund can serve as more than a funding mechanism. With proper oversight and administration, a trust fund can also provide a structure to improve coordination of public and private resources.
- If a trust fund is of sufficient size, expenditures can be limited to the interest that accrues on the account, creating a sustainable funding source that does not require additional allocations.

Fees and Narrowly-Based Taxes

In addition to broad-based taxes that cover a wide range of economic activity, local governments can also assess fees and levy narrowly-based taxes that are targeted to specific segments of economic activity. Fees can take a number of forms, but are typically structured as payments charged for the use of a service or good. Fees can be charged for the use of a public facility, such as a public park, or for a public service, such as water or sewage services. Fees can also be charged for granting licenses, such as a marriage license or a license to practice certain occupations, including child care. Local governments can also charge fees for special services or goods. For example, the state of Washington charges fees for ornate, heirloom birth certificates and transfers revenue generated by the fees to the state's children's trust fund. Fees are voluntary when the user can avoid the fee by not using the service or good. Fees on essential public services, such as water, are obviously less voluntary than fees on non-essential public services.

Fees are typically charged to cover the operating or capital costs of a public service or public facility. For example, fees for driver's licenses typically cover

Virginia Child Care Licensing Fees

In 1983, the Virginia legislature established the assessment of annual fees on licensed child care centers and family child care homes. Annual fees are based on licensed capacity and range from $200 for a large child care center to $14 for a licensed family child care home. Family child care networks pay an annual combined fee of $70. Short-term programs, such as summer programs, pay $25 per year if they serve up to 50 children and $50 a year if they serve more than that number. Licensing fees from approximately 2,300 centers and 1,200 family child care homes generate $250,000 per year. Fees are used to support quality improvement efforts, including training workshops and technical assistance materials for licensed child care providers.

costs such as administering driving tests and processing license applications. However, fees are sometimes used to supplement general revenues or support unrelated purposes. However, it is often politically and legally advantageous to link the fee to the service that it funds.

Similarly, narrowly-based taxes, such as taxes on ticket sales and cigarettes, place a payment burden on only certain businesses or consumers. Revenue generated from taxes on one type of good or service may, but need not, be used to fund related programs and services. For example, alcohol taxes can be used to fund abuse prevention programs.

San Francisco, California: Developer Fees

The San Francisco City Council established a developer fee in 1985 to address the child care needs of families affected by new development. According to city regulations, any new development or renovation of office or hotel buildings larger than 100,000 square feet must contain a child care center. In lieu of building a child care center, a developer can choose to pay a fee of $1 per square foot of space. Since their inception, developer fees have generated close to $2 million. Fees are used to support the city's Affordable Child Care Fund. The Affordable Child Care Fund allocates a portion of the revenue generated by developer fees to the Child Care Facilities Fund (CCFF). The CCFF also receives funds from the city's general revenues, several local banks, and private donations. The CCFF provides grants and low-cost financing to non-profit child care centers and family child care homes to assist with the development, expansion, or repair of facilities. The CCFF also provides technical assistance to enhance providers' facilities expertise and business management skills.

Considerations:

- The amount of revenue generated from fees and narrowly-based taxes will depend on the continued use of the good, service, and/or facility. For non-essential services and facilities, as the fee or tax increases, the use of that service and/or facility will likely decline. For example, revenue generated by cigarette taxes can be expected to decline

California Proposition 10

California voters passed Proposition 10, the Children and Families First Act, in 1998. Proposition 10 increased state excise taxes on cigarettes by 50 cents per pack. Revenue generated by Proposition 10 is funneled into the new California Children and Families First Trust Fund to be used to improve early childhood development from the prenatal stage to age five. Proposition 10 creates a new state commission and individual county commissions to oversee the expenditure of new revenue. The proposition specifies that the state commission is responsible for allocating 20 percent of the revenue and the county commissions are responsible for allocating the remaining 80 percent of the funds. The allocation of state commission funds is directed by statute. County commission can spend funds on a broad range of programs, including community awareness, education, nurturing, child care, social services, health care, and research. Proposition 10 also emphasizes the creation of an integrated, comprehensive, and collaborative system of information and services. Proposition 10 specifies that funds can only be spent to supplement existing levels of service and prohibits any of its revenue from being used to fund existing levelw of service. Proposition 10 will generate an estimated $690 million in fiscal year 2000.

over time since the tax discourages the purchase of cigarettes.

- Because fees and narrowly-based taxes target a smaller segment of economic activity than broad-based taxes, they typically generate smaller amounts of revenue. Consequently, fees and narrowly-based taxes may be a better option to fund discrete programs, such as training programs or a facilities fund, rather than universal or broad-based services or subsidies.
- Advocates and policy makers should consider the type of service or good on which a fee or tax is placed. Adding fees for essential public services, such as bus fares and utilities, will hit low-income residents the hardest.
- The amount of revenue generated from some types of fees and narrowly-based taxes may be unstable. For example, revenue from developer fees will fluctuate according to the real estate market. City officials in San Francisco originally used developer fees to fund child care subsidies. Because of the instability of the funding source, they have since chosen to shift that revenue to fund child care facilities improvements.
- Marketing campaigns to educate the public about a voluntary fee option, such as the opportunity to purchase a specialty license plate, may be necessary to encourage the use of the service and/or facility and increase the amount of revenue generated.

Massachusetts "Invest in Children" License Plates Fees

The Massachusetts state legislature authorized a specialty "Invest in Children" license plate in 1996. The sale of the license plates generates approximately $125,000 per year. Revenues support a Child Care Quality Fund. The state Office for Children administers the fund and offers grants to child care organizations. The Fund provides financial support for parent/consumer education, equipment and materials, multicultural training and curricula, and technical assistance for program accreditation. Nine other states collect specialty license plate fees that support children's services. The states and the services they fund are: Alabama (education), California (child health and safety), Connecticut (child safety), Florida (education and early intervention), Indiana (Kids First campaign), Louisiana (child safety), Missouri (Children's Trust Fund), Oregon (child abuse prevention), and Tennessee (education).

Income Tax Check-Offs

The use of check-off boxes on income tax returns to fund charitable organizations started in 1972, when the federal government began allowing taxpayers to designate $1 of their tax liability to a special presidential campaign fund. States soon followed with their own check-off programs, offering taxpayers the

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option to contribute to several charitable and social programs, including children's programs. Every state with a broad-based income tax has at least one check-off program. Twenty states administer check-off programs to fund children's programs, most commonly, child abuse and neglect prevention services. One state, Colorado, has instituted a check-off program to specifically fund child care services.

Check-off programs can be structured in one of two ways. First, the check-off can be used to redirect a portion of the taxpayer's tax liability to specific services. In this case, the taxpayer's liability remains the same and the taxpayer directs a portion of their tax payment to selected programs. Most state political campaign check-offs are set up to redirect a portion of tax dollars in this way. The other way in which state governments can create check-off programs is to allow taxpayers to decrease the amount of their refund through a donation. Many states limit the donation to the size of a taxpayer's refund. A few states permit taxpayers to increase their tax payments to include check-off donations. All non-political state check-off programs are structured as donations from taxpayers. Nationally, child abuse and prevention check-off programs averaged $8.50 per contribution last year and an average of 0.8 percent of taxpayers participated in such check-off programs.

Colorado Quality Child Care Income Tax Check-off

In 1996, the Colorado state legislature authorized a state income tax check-off to fund quality enhancements in child care programs. Taxpayers can make unlimited contributions to the program through either decreasing their refund or increasing their tax liability. The check-off program generated approximately $237,000 last year. Check-off funds are funneled into the Quality Child Care Improvement Fund. The Fund awards grants of up to $1,000 to family child care homes and up to $2,000 to child care centers and school-age care facilities. Grants can be used for training and education of staff, accreditation, and supplies and equipment related to the pursuit of accreditation. The statute allows up to $10,000 of funds generated to be used for marketing purposes. The Fund is administered by the Colorado Resource and Referral Agency.

Considerations:

- Income tax check-offs may be easier to sell to the public than other strategies to increase taxes, as contributions to the program are purely voluntary.
- Compared with other mechanism to solicit charitable donations, check-off contributions require little effort on the part of taxpayers.
- Participation rates in check-off programs tend to be low, thus generating relatively little revenue. Consequently, check-off programs are likely a better option to fund a discrete piece of an early care and education system, such as training and technical assistance for providers, rather than direct services or subsidies.
- The amount of revenue generated by a check-off program may be unstable. Participation rates tend to be highest in the first years of the program and decline over time. Participation rates may also depend on economic conditions and the size of tax liabilities and refunds.
- Participation rates in redirection programs (in which tax liability is not changed) tend to be higher (6.2 percent) than check-off programs funded through donations (0.9 percent). However, contributions to redirection programs tend to be capped, typically at $1 or $2. Therefore, average contributions tend to be lower than donation check-offs that are limited only by the size of the refund.

- Local requirements and circumstances will dictate the feasibility of check-off programs. Tax check-offs are obviously not an option in the eight states that do not levy income taxes. However, in addition to states that levy income taxes, municipalities and counties that levy local income taxes may also be able to employ this strategy.
- Marketing campaigns may improve participation rates. Participation rates in the Colorado check-off program has been moderately increasing since 1997. The Colorado Resource and Referral Agency attributes the increase in participation rates to active marketing efforts.

Conclusion

The financing strategies discussed above all offer both advantages and disadvantages to policy makers and program developers seeking to create dedicated revenue sources for early care and education programs and services. The choice of financing strategies will first and foremost depend on the goals and purposes of an initiative. In addition, the choice will also depend on existing and projected economic conditions and the local demographic context, both in terms of current and future need for services and the various tax bases that can be used. Finally, the political context, including the attitudes of policy makers and voters toward taxes and fees, will also shape the choice of financing strategies to create dedicated revenue sources for early care and education programs and services.

Additional Resources on Local Revenue Enhancement Strategies

PUBLICATIONS OF THE FINANCE PROJECT

- *Financing Family Resource Centers: A Guide to Financing Sources and Strategies* by Sara Watson and Miriam Westheimer (April 2000).
- *Financing Services for Young Children and Their Families: Meeting the Challenges of Welfare Reform* by Cheryl D. Hayes (March 1997).
- *Money Matters: A Guide to Financing Quality Education and Other Children's Services* (January 1997).
- *Revenue Generation in the Wake of Welfare Reform: Summary of The Pilot Learning Cluster on Early Childhood Finance* (August 1997).
- *The Property Tax in the 21st Century* by Hal Hovey (May 1996).
- *Tobacco Revenues As A Source of Funding for Children's Services: Developments in State Use of Tobacco Settlement Funds and Tobacco Taxes* by Lee Dixon, National Conference of State Legislatures, et. al. (October 1999). Other Resources

OTHER RESOURCES

- *Critical Issues in State-Local Fiscal Policy: A Guide to Local Option Taxes*. Foundation for State Legislatures and National Conference of State Legislatures. Denver, CO: National Conference of State Legislatures (1997).
- *Financing Child Care in the United States: An Illustrative Catalog of Current Strategies* by Anne Mitchell, Louise Stoney, and Harriet Dichter. The Ewing Marion Kauffman Foundation and The Pew Charitable Trusts (1997).
- *From Sandboxes to Ballot Boxes: San Francisco's Landmark Campaign to Fund Children's Services* by Margaret Brodkin and Coleman Advocates for Children. San Francisco: Coleman Advocates for Children (1994).
- *Getting to the Bottom Line: State and Community Strategies for Financing Comprehensive Community Service Systems* by Frank Farrow and Charlie Bruner. Des Moines, IA: National Center for Service Integration (1993).
- *Investing in the Future: Child Care Financing Options for the Public and Private Sectors* by C. Eichman, R. Ferlauto, M. Flood, B. Sumberg, and D. Tablert. New York: Child Care Action Campaign (1992).
- *The Future of Children: Financing Child Care* by the Center for the Future of Children. The David and Lucile Packard Foundation (1996).

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1. Adapted from *Getting to the Bottom Line: State and Community Strategies for Financing Comprehensive Community Service Systems* by Frank Farrow and Charlie Bruner. Des Moines, IA: National Center for Service Integration (1993).

2. In the case of many early care and education programs, parents pay fees for these services, typically on a sliding scale. This discussion of fees focuses not on private contributions of parents, but on strategies for creating local public revenue sources to fund early care and education systems.

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Starting Points

This brief was created as part of **Carnegie Corporation of New York's Starting Points State and Community Partnerships for Young Children**. Starting Points was established to plan and implement the reforms described in the Corporation's task force report, *Starting Points: Meeting the Needs of Our Youngest Children*. The four goals of the initiative are promoting responsible parenthood, ensuring high quality child care, providing children with good health and protection, and mobilizing the public to support young children and families. Starting Points sites are Baltimore, Boston, Pittsburgh, San Francisco, Colorado, Florida, Hawaii, North Carolina, Rhode Island, Vermont and West Virginia. National partners include The Finance Project **(www.financeproject.org)**, Columbia University School of Public Health **(www.columbia.edu)**, the National Center for Children in Poverty **(www.nccp.org)**, and the Families and Work Institute **(www.familiesandwork.org)**. More information about Carnegie Corporation can be found at www.carnegie.org.

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The Finance Project is a non-profit policy research, technical assistance and information organization that was created to help improve outcomes for children, families and communities nationwide. Its mission is to support decisionmaking that produces and sustains good results for children, families and communities by developing and disseminating information, knowledge, tools and technical assistance for improved policies, programs and financing strategies. Since its inception in 1994, The Finance Project has become an unparalleled resource on issues and strategies related to the financing of education and other supports and services for children, families and community development. For more information, visit TFP's website at **www.financeproject.org**.

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